

**Arizona Health Care Cost Containment System**  
**Administration**

A.R.S. § 36-2901

JLBC Analyst: John Malloy/Russell Frandsen

	<b>FY 2005 Actual</b>	<b>FY 2006 Estimate</b>	<b>FY 2007 Approved</b>
<b>OPERATING BUDGET</b>			
<i>Full Time Equivalent Positions</i>	3,087.8	3,096.8	3,159.4 <sup>1/</sup>
Personal Services	32,467,400	35,730,300	38,181,200
Employee Related Expenditures	10,661,700	12,481,300	13,664,700
Professional and Outside Services	3,871,600	4,156,100	7,036,200
Travel - In State	104,500	88,700	88,700
Travel - Out of State	40,700	28,600	28,600
Other Operating Expenditures	12,295,800	10,536,000	10,626,300
Equipment	3,175,600	1,036,300	1,171,600 <sup>2/</sup>
<b>OPERATING SUBTOTAL</b>	<b>62,617,300</b>	<b>64,057,300</b>	<b>70,797,300</b>
<b>SPECIAL LINE ITEMS</b>			
ADOA Data Center Charges	5,707,600	5,717,500	5,717,500 <sup>3/</sup>
Indian Advisory Council	161,500	214,900	227,300
DES Eligibility	41,572,600	48,366,000	57,987,800 <sup>4/5/</sup>
DES Title XIX Pass-Through	290,700	325,800	345,600
Healthcare Group Administration and Reinsurance	3,647,900	3,638,600	3,811,800
Office of Administrative Hearings	202,700	206,400	269,800
KidsCare - Administration	8,166,600	8,551,100	9,335,600
Proposition 204 - AHCCCS Administration	10,194,000	10,391,300	11,411,300
Proposition 204 - DES Eligibility	28,262,800	35,041,900	41,871,600 <sup>6/</sup>
Computer System Planning	0	0	2,000,000 <sup>7/</sup>
2-1-1 System	0	0	1,900,000 <sup>8/</sup>
<b>PROGRAM TOTAL</b>	<b>160,823,700</b>	<b>176,510,800</b>	<b>205,675,600<sup>9/10/11/12/</sup></b>
<b>FUND SOURCES</b>			
General Fund	65,661,000	76,037,100	88,922,400
<u>Other Appropriated Funds</u>			
Budget Neutrality Compliance Fund	5,566,700	2,395,400	2,531,900
Children's Health Insurance Program Fund	6,452,000	6,629,300	7,168,300
Healthcare Group Fund	3,062,300	3,638,600	3,811,800
<b>SUBTOTAL - Other Appropriated Funds</b>	<b>15,081,000</b>	<b>12,663,300</b>	<b>13,512,000</b>
<b>SUBTOTAL - Appropriated Funds</b>	<b>80,742,000</b>	<b>88,700,400</b>	<b>102,434,400</b>
<u>Expenditure Authority Funds</u>			
Federal Title XIX Funds	80,081,700	87,810,400	103,241,200
<b>SUBTOTAL - Expenditure Authority Funds</b>	<b>80,081,700</b>	<b>87,810,400</b>	<b>103,241,200</b>
<b>SUBTOTAL – Appropriated/Expenditure Authority Funds</b>	<b>160,823,700</b>	<b>176,510,800</b>	<b>205,675,600</b>
Other Non-Appropriated Funds	39,318,800	71,589,900	71,589,900
Federal Funds	372,400	0	0
<b>TOTAL - ALL SOURCES</b>	<b>200,514,900</b>	<b>248,100,700</b>	<b>277,265,500</b>

<sup>1/</sup> Includes 983.2 GF, 172 OF, and 945.3 EA FTE Positions funded from Special Line Items in FY 2007.

<sup>2/</sup> Laws 2006, Chapter 350 appropriation of \$200,000 GF and \$200,000 EA.

<sup>3/</sup> It is the intent of the Legislature that the appropriation for the Department of Administration Data Center Charges be used only for the payment of charges incurred by the department for the use of computing services provided by the Department of Administration Data Center. (General Appropriation Act footnote)

<sup>4/</sup> The amounts appropriated for the Department of Economic Security Eligibility Special Line Item shall be used for intergovernmental agreements with the Department of Economic Security for the purpose of eligibility determination and other functions. The General Fund share may be used for eligibility determination for other programs administered by the Division of Benefits and Medical Eligibility based on the results of the Arizona Random Moment Sampling Survey. (General Appropriation Act footnote)

<sup>5/</sup> Laws 2006, Chapter 350 appropriation of \$3,021,200 GF and \$3,021,200 EA.

<sup>6/</sup> Laws 2006, Chapter 350 appropriation of \$2,178,800 GF and \$2,178,800 EA.

<sup>7/</sup> Laws 2006, Chapter 350 appropriation of \$200,000 GF and \$1,800,000 EA.

<sup>8/</sup> Laws 2006, Chapter 350 appropriation of \$1,900,000.

**COST CENTER DESCRIPTION** — Administration responsibilities related to health plan contracting include rate negotiations, health plan auditing and financial oversight, and assisting with the formulation of new health plans. Other major Administration responsibilities include the development and maintenance of the management information system, policy development and research, and agency finance and accounting. Additionally, the program provides funding for eligibility determinations.

<b>PERFORMANCE MEASURES</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Actual</b>	<b>FY 2007 Approved</b>
<ul style="list-style-type: none"> <li>% of applications processed on time</li> </ul> <p>Comments: Most of the reason for applications not being processed on time is due to client errors in submitting needed information.</p>	94	79	68	95
<ul style="list-style-type: none"> <li>Customer satisfaction rating for eligibility determination clients (Scale 1-8)</li> </ul> <p>Comments: The performance measure surveys are conducted every 2 years, which results in the labels of "NA" for those measures. The budget provides the survey be done annually.</p>	NA	6.0	NA	6.0

### ***Operating Budget***

The budget provides \$70,797,300 for the operating budget in FY 2007. This amount consists of:

	<b><u>FY 2007</u></b>
General Fund	\$28,028,600
Federal Expenditure Authority	42,768,700

These amounts include an increase of \$3,681,000 for statewide adjustments. This amount consists of:

General Fund	1,596,400
Federal Expenditure Authority	2,084,600

*(Please see the Statewide Adjustments section at the end of this Appropriations Report for details.)*

### **HIPAA Compliance**

The budget also includes a one-time increase of \$2,659,000 in FY 2007 for HIPAA compliance issues. This amount consists of:

General Fund	265,900
Federal Expenditure Authority	2,393,100

New electronic transaction standardization requirements continue to be added under the federal Health Insurance Portability and Accountability Act of 1996. These monies will be used by AHCCCS to meet 4 new standards in FY 2007.

### **Imaging Equipment**

The State Government Budget Reconciliation Bill (BRB) (Laws 2006, Chapter 350) provides an increase of \$400,000 in FY 2007 for imaging equipment. This amount consists of:

General Fund	200,000
Federal Expenditure Authority	200,000

This money will fund new imaging equipment, which will be used to store more documents electronically and reduce paper filing costs.

### ***Special Line Items***

#### ***ADOA Data Center Charges***

The budget provides \$5,717,500 for ADOA Data Center Charges in FY 2007. This amount consists of:

9/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Program.

10/ The Arizona Health Care Cost Containment System Administration shall report to the Joint Legislative Budget Committee by January 1 of each year on the agency's use of the cost savings that results from entering into an agreement with another state as outlined in Laws 1999, Chapter 313, Section 27. The report shall also include detail on the source of all revenues and expenditure of monies from the Intergovernmental Service Fund. (General Appropriation Act footnote)

11/ The Arizona Health Care Cost Containment System shall report by September 30 of each year to the Joint Legislative Budget Committee on the services that receive reimbursement from the federal government under the Medicaid in Public School initiative. The report shall include information on the type of services, how those services meet the definition of medical necessity, and the total amount of federal dollars that the schools have received under the Medicaid in Public School initiative. (General Appropriation Act footnote)

12/ AHCCCS shall report by November 30, 2006 to the Joint Legislative Budget Committee on the fiscal impact of implementing certain provisions in the Federal Deficit Reduction Act of 2005 that provided states greater flexibility in the operation of their Medicaid programs. The report shall address: the fiscal impact associated with 1) Enacting the maximum amount of cost sharing subject to the federal limitations that aggregate cost sharing and premiums cannot exceed 5% of household income. 2) Cost sharing for prescription drugs that are not preferred drugs within a class. 3) Cost sharing for nonemergency care provided in a hospital. 4) Cost sharing for an alternative benefit package that is actuarially equivalent to federal "benchmark" benefit packages. AHCCCS shall report to the Joint Legislative Budget Committee by September 1, 2006 on which benefit alternative was selected as a "benchmark." (General Appropriation Act footnote)

General Fund	1,724,700
Federal Expenditure Authority	3,992,800

These amounts are unchanged from FY 2006.

This Special Line Item reflects costs associated with the agency's usage of mainframe computing services provided by the Arizona Department of Administration (ADOA).

#### **Indian Advisory Council**

The budget provides \$227,300 and 3.6 FTE Positions for the Indian Advisory Council in FY 2007. This amount consists of:

General Fund	113,800
Federal Expenditure Authority	113,500

These amounts include an increase of \$12,400 for statewide adjustments. This amount consists of:

General Fund	6,200
Federal Expenditure Authority	6,200

The Advisory Council on Indian Healthcare assists in developing a comprehensive healthcare delivery system for Arizona's Native American population.

#### **DES Eligibility**

The budget provides \$57,987,800 and 991.6 FTE Positions for DES Eligibility services in FY 2007. These amounts consist of:

General Fund	27,657,600
Federal Expenditure Authority	30,330,200

These amounts include an increase of \$3,579,400 for statewide adjustments. This amount consists of:

General Fund	1,743,900
Federal Expenditure Authority	1,835,500

#### **Citizenship Verification**

The State Government BRB provides an increase of \$6,042,400 and 33.4 FTE Positions in FY 2007 for implementing the citizenship verification of the federal Deficit Reduction Act. This amount consists of:

General Fund	3,021,200
Federal Expenditure Authority	3,021,200

The federal Deficit Reduction Act, effective July 1, 2006, requires that every applicant to Medicaid provide identity and citizenship documentation. Prior to this act, the state had a policy of allowing self-declarations of citizenships and would require documentation on an as-needed basis. The new documentation requirements are intended to prevent ineligible applicants from receiving services.

The monies include \$3,950,800 for one-time expenditures. This amount consists of \$1,975,400 from the General Fund and \$1,975,400 in Federal Expenditure Authority. The monies may be used to hire temporary staff.

An estimated 1,250,000 AHCCCS applications are received annually with 27% of those applications being first-time applications. The one-time expenditures are to verify the documents of the other 73% of the applications for those who are currently receiving services through AHCCCS.

The monies include \$2,091,600 and 33.4 FTE Positions for ongoing expenditures to process the new applications received annually. This amount consists of \$1,045,800 from the General Fund and \$1,045,800 in Federal Expenditure Authority. These amounts include \$271,000 for equipment.

Citizenship verification requirements also apply to the Proposition 204 – DES Eligibility Special Line Item. In FY 2007, the total monies included in both Special Line Items are \$5,200,000 from the General Fund and \$5,200,000 in Federal Expenditure Authority and a total of 57.6 additional eligibility workers. (*Please see the Proposition 204 – DES Eligibility section for more information.*)

The Department of Economic Security (DES), through an intergovernmental agreement, performs eligibility determinations for the Acute Care program.

#### **DES Title XIX Pass-Through**

The budget provides \$345,600 and 4.3 FTE Positions for DES Title XIX Pass-Through funding in FY 2007. These amounts consist of:

General Fund	148,900
Federal Expenditure Authority	196,700

These amounts include an increase of \$19,800 for statewide adjustments. This amount consists of:

General Fund	9,000
Federal Expenditure Authority	10,800

This Special Line Item contains funding for both the DES Disability Determination Services Administration (DDSA) and the DES Preadmission Screening and Annual Resident Review (PASARR) programs, which are administered by DES through an intergovernmental agreement. DES - DDSA determines disability entitlement for the Arizona Long-Term Care System and the Federal Emergency Services program. DES - PASARR screens all individuals with developmental disabilities before they enter the Long Term Care program to determine the appropriate level and types of specialized services needed.

### **Healthcare Group Administration and Reinsurance**

The budget provides \$3,811,800 and 30 FTE Positions from the Healthcare Group Fund for Healthcare Group Administration costs in FY 2007. The amount includes an increase of \$173,200 from the Healthcare Group Fund for statewide adjustments.

Administrative costs of the Healthcare Group program are paid for from the Healthcare Group Fund, which receives revenue from monthly premiums paid by Healthcare Group members.

### **Office of Administrative Hearings**

The budget provides \$269,800 and 3 FTE Positions in Federal Expenditure Authority for Office of Administrative Hearings (OAH) costs in FY 2007. The amount includes an increase of \$16,900 in Federal Expenditure Authority for statewide adjustments.

### **Caseload Growth**

The budget also provides an increase of \$46,500 from Federal Expenditure Authority in FY 2007 to fund the growth in the number of hearings, as shown in *Table 1* below. From FY 2003 to FY 2005, the number of hearings increased 33% without a corresponding increase in appropriation authority.

<b>Table 1</b>	
<b>Title XIX Hearings</b>	
FY 2003	1,915
FY 2004	1,980
FY 2005	2,543

This Special Line Item contains the Federal Expenditure Authority associated with hearing and grievance activities performed by OAH. AHCCCS transfers the Federal Funding to OAH, in addition to monies received from the Children's Health Insurance Program Fund, based on the cases reviewed.

### **KidsCare - Administration**

The budget provides \$9,335,600 and 142 FTE Positions for KidsCare Administration costs in FY 2007. This amount consists of:

General Fund	2,167,300
Children's Health Insurance Program (CHIP) Fund	7,168,300

This amount includes an increase of \$587,100 for statewide adjustments. This amount consists of:

General Fund	119,700
Children's Health Insurance Program (CHIP) Fund	467,400

The budget also includes the following changes:

### **FMAP Change**

The budget provides an increase of \$80,800 from the General Fund and a corresponding CHIP Fund decrease in FY 2007 to reflect the lowering of the enhanced federal medical assistance percentage in October 1, 2006 from 76.89% to 76.53%.

### **HIPAA Compliance**

The budget provides a one-time increase of \$197,400 in FY 2007 for HIPAA Compliance. This amount consists of:

General Fund	45,000
Children's Health Insurance Program (CHIP) Fund	152,400

New electronic transaction standardization requirements continue to be added under the federal Health Insurance Portability and Accountability Act of 1996. These monies will be used by AHCCCS to meet 4 new standards in FY 2007.

KidsCare, also known as the Children's Health Insurance Program (CHIP), provides health insurance coverage to uninsured children whose families have an income less than 200% of the Federal Poverty Level (FPL). This Special Line Item includes funding for the administration component of this program, while funding for the services in the KidsCare program are included in the Acute Care Cost Center.

The administrative component of the CHIP program includes both direct and indirect costs and is capped by federal law at 10% of program costs. The budgeted KidsCare Administration funding level from the CHIP Fund is approximately 6.3% of the budgeted CHIP Fund program costs.

### **Proposition 204 - AHCCCS Administration**

The budget provides \$11,411,300 and 202.3 FTE Positions for Proposition 204 AHCCCS Administration costs in FY 2007. This amount consists of:

General Fund	5,575,600
Federal Expenditure Authority	5,835,700

These amounts include an increase of \$630,100 for statewide adjustments. This amount consists of:

General Fund	311,600
Federal Expenditure Authority	318,500

### **HIPAA Compliance**

The budget provides a one-time increase of \$389,900 in FY 2007 for HIPAA Compliance. This amount consists of:

General Fund	39,100
Federal Expenditure Authority	350,800

New electronic transaction standardization requirements continue to be added under the federal Health Insurance Portability and Accountability Act of 1996. These monies will be used by AHCCCS to meet 4 new standards in FY 2007.

Proposition 204 expanded AHCCCS coverage up to 100% FPL. This Special Line Item contains funding for AHCCCS administration costs of the Proposition 204 program, while funding for the services to this population are included in the Acute Care Cost Center.

#### **Proposition 204 - DES Eligibility**

The budget provides \$41,871,600 and 683.2 FTE Positions for Proposition 204 DES Eligibility costs in FY 2007. These amounts consist of:

General Fund	21,405,900
Budget Neutrality Compliance Fund	2,531,900
Federal Expenditure Authority Funds	17,933,800

These amounts include an increase of \$2,608,600 for statewide adjustments. This amount consists of:

General Fund	1,440,700
Federal Expenditure Authority	1,167,900

The budget also includes the following:

#### **Statutory Adjustment**

The budget provides an increase of \$136,500 from the Budget Neutrality Compliance Fund (BNCF) and a corresponding General Fund decrease in FY 2007 to reflect a statutorily required increase of county contributions. The BNCF is comprised of contributions from Arizona counties for administrative costs of the implementation of Proposition 204. Prior to the Proposition, the counties funded and administered the health care program for some of the Proposition 204 population.

Pursuant to A.R.S. § 11-292P, the JLBC Staff is required to adjust the prior year county contribution to the BNCF based on inflationary and population growth. In accordance with this requirement, JLBC Staff used inflationary growth of 2.3%, as measured by the December 2005 estimate of the calendar year 2005 Gross Domestic Product (GDP) price deflator, and population growth of 3.4%, as estimated by the Department of Economic Security (DES) Population Statistics Unit. Using these rates, JLBC Staff calculated a FY 2007 increase of \$136,500 above the FY 2006 contribution amount of \$2,395,400. *(Please see Table 6 in the Acute Care Cost Center for contributions by county.)*

#### **Citizenship Verification**

The State Government BRB provides an increase of \$4,357,600 and 24.2 FTE Positions in FY 2007 for

implementing the citizenship verification of the federal Deficit Reduction Act. This amount consists of:

General Fund	2,178,800
Federal Expenditure Authority	2,178,800

The monies include \$2,849,200 for one-time expenditures. This amount consists of \$1,424,600 from the General Fund and \$1,424,600 in Federal Expenditure Authority. The monies may be used to hire temporary staff.

The monies include \$1,508,400 and 24.2 FTE Positions for ongoing expenditures to process the new applications received annually. This amount consists of \$754,200 from the General Fund and \$754,200 in Federal Expenditure Authority. These amounts include \$195,600 for equipment.

Citizenship verification requirements also apply to the DES Eligibility Special Line Item. In FY 2007, the total monies included in both Special Line Items are \$5,200,000 from the General Fund and \$5,200,000 in Federal Expenditure Authority and a total of 57.6 additional eligibility workers. *(Please see the DES Eligibility section above for more information.)*

This Special Line Item contains funding for DES Eligibility costs, in DES, of the Proposition 204 program. This funding primarily represents eligibility services provided by DES.

#### **Computer System Planning**

The State Government BRB provides \$2,000,000 for a new line item, Computer System Planning, in FY 2007. This amount consists of:

General Fund	200,000
Federal Expenditure Authority	1,800,000

The one-time monies will be used to fund a replacement study of AHCCCS application-processing computer system, the Prepaid Medical Management Information System. This appropriation does not obligate the Legislature to increase funding for this purpose in future years.

#### **2-1-1 System**

The State Government BRB provides \$1,900,000 and 5 FTE Positions from the General Fund for a new line item, 2-1-1 System, in FY 2007.

These monies will be used to begin phone service for the 2-1-1 system. Arizona 2-1-1 online, [www.az211.gov](http://www.az211.gov), was announced on June 29, 2005. The online 2-1-1 system provides referrals to available health and human services in Arizona. The 2-1-1 system can also be used to communicate updates during emergencies. The online component of 2-1-1 was initially funded with federal grants. The \$1,900,000 will fund \$600,000 of ongoing online costs. The new monies add \$400,000 for staffing

costs for the new phone system. The new phone system will refer callers to a regional information and referral operation, based on where they live. The remaining \$900,000 will fund setup costs for the new phone system.

#### ***Additional Legislation***

##### ***Ch. 331 Health and Welfare Budget Reconciliation Bill***

The Health and Welfare BRB (Laws 2006, Chapter 331) directs that AHCCCS shall issue a request for proposals (RFP) and may execute a contract to privatize eligibility determination and redetermination services by March 31, 2007. The RFP is to focus on how privatization will save the state money and must be reviewed by the Joint Legislative Budget Committee before release and being awarded.

The Health and Welfare BRB also amends the statutory contribution percentages for counties contributing to the Budget Neutrality Compliance Fund to make a technical correction.